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SUCCESSES AND FAILURES OF NEOLIBERALISM

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As Kurt Weyland points out in his introduction, we have a rich scholarly literature on the causes and processes of neoliberal reforms in Latin America and elsewhere.* In contrast, much of the debate about the effects of neoliberal reforms in Latin America has been carried out at a political and ideological level. The image of an overblown and inefficient state that stifles market forces and private initiative has been contrasted with the model of a lean and efficient state that relies on the market to set free productive energies and thus stimulates growth and solves social problems (e.g., Larroulet 1993). With this research note, we aim to make a contribution to the emerging empirically based scholarly literature that investigates the effects of neoliberal policy reforms (e.g., Stallings and Peres 2000).

It may be useful to start by clarifying how we are approaching the assessment of the successes or failures of neoliberal reforms. Any such assessment is in some sense relative and depends heavily on one's counterfactual. If the counterfactual is no reforms at all, i.e., a continuation of the ISI model as it was pursued from the 1950s to the 1970s, including what Michael Walton calls the "old-style populist redistributive agenda" (see Walton in this volume, 178), then the assessment of successes looks more favorable. The old model was clearly not sustainable and was kept afloat by easy borrowing during the 1970s, and thus had to be changed. It also had serious regressive components in social policy that needed to be changed. If, however, the counterfactual is a different sort of change from neoliberal change, let us call it for convenience's sake a social democratic model, then the failures of neoliberalism seem to weigh more heavily than the successes.

We are using the term "social democratic" in the sense of its venerable history in Northern Europe, to denote a policy orientation guided

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by the values of solidarity and equity, and by the recognition that sustainable growth strategies are a precondition for improvements in human welfare. In Northern Europe's small and open economies, this has always meant that a country has to be competitive in export markets, and the democratic state has a crucial role in cooperation with organized labor and employers in promoting competitiveness and pursuing social solidarity and equity. Thus, the social democratic model is by no means tied to protected economies but remains relevant in a globalizing world. Our usage, then, is consistent with the one that was introduced into the debate about economic reform in developing countries by Bresser et al. (1993) to denote an orientation that emphasizes the importance of social safety nets as part of economic reforms, and the importance of democratic mechanisms in shaping reforms in economic and social policy.

What are the criteria, then, or indicators by which to assess progress or lack thereof towards a development model that combines growth, equity, and democracy (the latter not just in the form of periodic elections but in the form of protection of civil and political rights and the rule of law and governmental accountability)? To what extent can we link progress or lack thereof to neoliberal reforms and to the nature of the reform process? Can we identify alternative reforms that would have brought more progress towards these goals?

We can look at five indicators to assess progress towards such a development model: *growth, economic stability/predictability/absence of volatility, poverty, inequality,* and *quality of democracy*.

REFORMS AND PERFORMANCE ON GROWTH AND EQUITY

Since all Latin American and Caribbean countries embarked on some kind of neoliberal reform course in the 1980s and/or 1990s, we can begin by looking at the overall trajectory of our indicators in Latin America, assuming that overall performance was shaped by the thrust of the reforms. Growth performance has been mixed; after the lost decade of the 1980s, we saw good average growth rates in the first half of the 1990s, but lower ones in the second half. Arguably, lower average rates in the second half were due to the effects of various financial crises, starting with the Tequila crisis in the mid-1990s, continuing with the repercussions of the Asian crisis in 1997 and 1998, and culminating in the Argentine collapse in 2001 and 2002.

With regard to stability versus volatility, it is clear that stability has increased in one respect, in that Latin American countries had clearly lower rates of inflation in the 1990s than before. However, in other respects volatility dominated. As a result, a whole issue of the Inter-American Development Bank's annual report on Economic and Social Progress in Latin America was devoted to the topic of "Overcoming

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Volatility" (1995). The periodic financial crises generated the need for economic stabilization and resulted in a decline in growth rates in the short run. This volatility also kept investment rates low and thus reduced the growth potential in the longer run.

If we look at poverty, we see an improvement in the 1990s; poverty fell from 48.3 percent of the population in 1990 to 43.8 percent in 1999, but still remained above the level of 40.5 percent in 1980 (estimate for nineteen countries; ECLAC 2002, 14). Arguably, this is a result of a combination of the changing class structure in Latin America and the failure of governments to include in their reforms the construction of solid social safety nets. The growing informalization and decline of formal sector employment, together with other reforms, have led to growing income concentration, as outlined by Portes and Hoffman (2003).

Finally, the quality of democracy in Latin America has not improved since roughly the mid-1980s, as Larry Diamond et al. (1999, 62) have shown. According to the Freedom House scores, there were seven liberal democracies among twenty-two Latin American and Caribbean countries in 1980, as indicated by a score of 2–5 for political rights and civil liberties; by 1987 the number had increased to thirteen, but dropped again to eleven by 1997. The number of outright authoritarian regimes decreased from eight to one over this period, and the number of electoral or pseudodemocracies increased from seven to ten.

Overall, the picture of progress in the areas of growth, stability, poverty, and democracy is not particularly encouraging. Proponents of neoliberal reforms are quick to argue that the problem has been insufficient commitment to reforms. If governments had been less cautious, less intimidated by political opposition, and instead more aggressive in pushing through a broad reform program, the outcomes would have been better. In their view, bold actions by politically insulated technocrats, including shock therapies, are indicated to overcome resistance.

In order to subject these claims to empirical scrutiny, we perform some simple comparisons. We compare countries that ranked higher on neoliberal reforms in the mid-1990s to those that ranked lower, and we compare more radical to more cautious reformers over the period of 1982 to 1995. We are using the best available data on neoliberal reform in Latin America, the General Reform Index (GRI) constructed by Morley et al. (1999). Unfortunately, the data for this index that are in the public domain only cover the years up to 1995. The GRI has five components: commercial, financial, capital account, privatization, and tax reform.

The index confirms that all of the countries underwent neoliberal reforms in the years after the onset of the debt crisis; in fact the 1995 GRI scores for all countries, except Jamaica (.767) and Venezuela (.667), exceeded that of the most neoliberal country of 1982, Uruguay (.776). We

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Table 1 Neoliberal Reforms in Seventeen Latin American Countries

	Countries Above Median	*Countries Below Median*
General Reform Index, 1995		
	Uruguay	Venezuela
	Argentina	Jamaica
	El Salvador	Honduras
	Dominican Republic	Colombia
	Costa Rica	Ecuador
	Peru	Brazil
	Chile	Mexico
	Guatemala	Bolivia
	Paraguay	
Change in GRI, 1982–1995		
	Dominican Republic	Chile
	Peru	Uruguay
	El Salvador	Honduras
	Paraguay	Colombia
	Jamaica	Argentina
	Guatemala	Venezuela
	Costa Rica	Ecuador
	Brazil	Bolivia
		Mexico
Drastic Reform Episodes, 1982–1995		
	Peru	Uruguay
	Brazil	Chile
	Costa Rica	Venezuela
	Paraguay	Argentina
	Ecuador	Honduras
	Dominican Republic	Colombia
	Bolivia	Mexico
	El Salvador	Jamaica
	Guatemala	

Source: Morley, Machado, and Pettinato (1999).

first divide the countries into two groups, those above the median value of the GRI in 1995, and those below.

In order to better gauge the successes and failures of radical, that is, fast and extensive, neoliberal reform processes, we then classify the countries on the basis of the extent of these reforms from 1982 to 1995, measured as the change in GRI scores. We further include a measure of the magnitude of any drastic reform episodes their governments may have imposed during that period. We calculated the magnitude of drastic

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reform episodes for each country as its largest one-year change on the GRI. Again, both classifications are simple dichotomies, above and below the median of the measure in question. The three classifications overlap considerably. Costa Rica, the Dominican Republic, El Salvador, Guatemala, Peru, and Paraguay are above the median in all three classifications; Colombia, Honduras, Mexico, and Venezuela are consistently below the median. Despite these similarities, the three classifications yield different results that are useful for evaluating the claims made on behalf of neoliberal reform against its actual record in Latin America.

Results for our first two indicators, growth and volatility, are shown in table 2. We divide the period into two sub-periods, 1982–89 and 1990–98. We do this in order to deal with the argument that an analysis of the whole period would lump together the economic crises that preceded the reforms with the reform period itself and its aftermath. It could be the case that the countries that suffered the worst crises then engaged in the most radical reforms, and a bad economic performance over the entire period could be interpreted as a cause rather than an effect of radical neoliberal reforms. Table 2 shows that countries that had more liberalized economies in 1995 suffered a somewhat bigger decline in GDP per capita between 1982 and 1989 but experienced clearly higher average annual growth in GDP per capita between 1990 and 1998 (in constant dollars, adjusted for purchasing power parity). However, just as clearly, countries that pursued more radical reform approaches suffered actually a somewhat lower decline between 1982 and 1989 but then experienced six times lower average annual growth rates between 1990 and 1998 than countries that proceeded more cautiously. Countries that imposed drastic reform episodes suffered a steeper decline in between 1982 and 1989, and between 1990 and 1998 grew by less than a quarter of the rate of countries that avoided them. This last result could potentially be interpreted as lending some support to the alternative interpretation that deeper economic crises were the causes of more radical reforms. However, one can just as well argue that the drastic reform episodes aggravated the economic recessions. An examination of growth rates in the period between 1973 and 1981 does not support the argument that economies with historically lower growth rates were forced into more radical reforms in the 1980s. Radical reformers grew at an average of 1.15 percent in the period between 1973 and 1981, whereas the more moderate reformers grew at an average annual rate of 1.51 percent—not a difference that would lead to risky experiments. Moreover, between 1973 and 1981 countries that imposed radical reform episodes in the 1980s grew at 1.77 percent per year, whereas countries that avoided such episodes grew at 0.86 percent per year. These results suggest very strongly that more liberalized economies did provide better conditions for economic growth between 1990 and 1998, but that radical

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Table 2 Economic Growth and Stability

	Gross Domestic Product Per Capita (1995 PPP U.S. Dollars)		
	Average Annual Growth, 1982–1989 (%)	*Average Annual Growth, 1990–1998 (%)*	*Standard Deviation of Annual Growth, 1990–1998 (%)*
General Reform Index, 1995			
Above Median	-0.74	1.35	5.7
Below Median	-0.43	-0.37	3.6
Change in GRI, 1982–1995			
Above Median	-0.42	0.14	5.7
Below Median	-0.76	0.88	4.1
Drastic Reform Episodes, 1982–1995			
Above Median	-0.74	0.21	5.5
Below Median	-0.43	0.90	4.2

Source: World Bank (2000).

approaches to liberalization have substantial costs in the form of depressed growth rates.

When we turn to volatility, the picture is very consistent; more liberalization is associated with greater volatility. Following the Inter-American Development Bank (1995), we measure volatility in per capita income using the standard deviation of annual growth. In countries with more liberalized economies as of 1995, the average standard deviation in annual growth was 5.7 percent in the period between 1990 and 1998, compared to 3.6 percent for countries with less liberalized economies.[1]

The more radical reformers had the same degree of volatility, 5.7 percent, and the more cautious reformers, the lower rate of 4.1 percent. Finally, countries that imposed radical reform episodes in the period between 1982 and 1998 had a volatility of 5.5 percent between 1990 and 1998, and countries that avoided drastic reform episodes, 4.2 percent. Our results, then, indicate that both the speed of neoliberal reforms and a higher achieved level of reforms have costs in the form of higher volatility. Arguably, this is a result of the combination of the liberalization of capital markets and trade, an argument we will come back to below.

1. For this analysis, we had to correct two data points for Colombia (drawn from the World Bank's World Development Indicator's CD-ROM) that clearly lacked face validity. We thank Kurt Weyland for pointing out this deficiency in a previous draft.

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Our attempt to gauge the performance of more and less liberalized economies and of more and less radical reformers in the areas of poverty and inequality is somewhat hampered by the availability of data that are comparable over time and across countries. Income inequality data for Argentina, Bolivia, Ecuador, Paraguay, and Uruguay are unavailable; for the remaining countries, data for the closest available year was used. Poverty data at the national level for Bolivia and Uruguay are unavailable. Ideally, one would want poverty data for the period before the onset of the reforms, to measure change, but problems of comparability are serious. Nevertheless, even with restricted data availability, the picture emerging from table 3 is clear and consistent.

Higher levels of liberalization and more radical processes of liberalization are associated with higher levels of inequality and poverty. The changes in inequality are impressive: The countries with the more liberalized economies as of 1995 started out around 1982 with lower levels of inequality than the countries with the less liberalized economies as of 1995, but the two sets of countries switched position, with the more liberalized economies ending up with higher levels of inequality around 1995 than the less liberalized economies. Looking at the process of reform, we see that the more radical reformers started out and ended up with lower levels of inequality than the more moderate reformers, as both sets of countries saw an increase in inequality. However, the gap between the two sets of countries narrowed considerably, as the more radical reformers increased their Gini index twice as much as the more moderate reformers. The greatest costs in terms of inequality were incurred by drastic reform episodes; countries that had more drastic reform episodes increased their Gini index nine times more than countries that avoided them. There is no doubt, then, that higher levels of neoliberalism and more aggressive tactics of liberalization are associated with rising inequality.

The picture on poverty is equally consistent. More liberalized economies and more radical reform approaches are associated with higher levels of poverty. Since we do not have comparable data for the period before the onset of reforms, proponents of neoliberalism will argue that this must be a result of initially higher levels of poverty in the radical reformers. However, we need to remember that the more liberalized economies started out with a higher level of GDP per capita in 1982, had higher economic growth in the period between 1982 and 1998, and ended up with a level of GDP per capita in 1998 roughly a third higher than the less liberalized economies. So, the very least we can say is that economic growth certainly did not trickle down and did nothing to relieve the higher levels of poverty in the more liberalized economies. If we consider the poverty data in conjunction with the inequality data, this seems to be a great understatement.

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Table 3 Income Inequality and Poverty

	Gini Index of Income Inequality			Poverty, 1987–2000
	~1982	~1995	Change	
General Reform Index, 1995				
Above Median	47.2	51.9	4.7	32.3
Below Median	49.7	50.4	0.7	26.2
Change in GRI, 1982–1995				
Above Median	46.8	50.6	3.8	32.0
Below Median	50.7	52.6	1.9	26.6
Drastic Reform Episodes 1982–1995				
Above Median	47.4	52.8	5.4	34.0
Below Median	49.5	50.1	0.6	24.2

Sources: Londoño and Székely (1997); UNDP (2002).

Finally, we look at the performance of the various sets of countries in the area of quality of democracy. We are using Polity IV and Freedom House scores, because they allow for the detection of more nuanced differences than dichotomous measures of democracy would. Although both the Polity IV and Freedom House datasets have well-known flaws as measures of the quality of democracy, they remain the standards in cross-national work (see Munck and Verkuilen 2002; Mainwaring et al. 2001). We recoded Freedom House scores, so that higher scores indicate higher quality democracies, to make them more intuitive and comparable to the Polity IV scores. With respect to the relationship between neoliberal reforms and democratization, both measures tell the same story (table 4).

Countries with more liberalized economies as of 1995 showed greater improvements in the two measures of quality of democracy in the period between 1982 and 2000 (8.9 and 3.2) than countries with less liberalized economies (2.1 and –0.8). They started out at a lower level of democracy in 1982 and caught up to the same level in 2000 as the countries with less liberalized economies on the Polity IV scores and even surpassed the latter's level on the Freedom House scores. This suggests that more liberalized economies provide a more hospitable environment for democracy than more regulated economies.

When we look at the reform process, though, the picture changes. The more radical reformers improved their democracy scores to a lesser extent than the more cautious reformers. On the Polity IV scores the radical reformers started out higher and ended up lower than the cautious reformers, and on the Freedom House scores they started out at virtually the same level and fell somewhat behind. The differences are

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Table 4 Democracy

	Polity IV Score (-10 to 10)			*Freedom House (2 to 14)*		
	1982	*2000*	*Change*	*1982*	*2000*	*Change*
General Reform Index, 1995						
Above Median	-1.3	7.6	8.9	7.8	11.0	3.2
Below Median	5.5	7.6	2.1	10.9	10.1	-0.8
Change in GRI, 1982–1995						
Above Median	2.1	7.3	5.1	9.3	10.3	1.0
Below Median	1.7	7.9	6.2	9.2	10.9	1.7
Drastic Reform Episodes, 1982–1995						
Above Median	2.7	7.1	4.4	9.6	10.4	0.7
Below Median	1.0	8.1	7.1	8.9	11.0	2.1

Sources: Marshall and Jaggers (2002); Freedom House (2002).

even more pronounced if we compare the countries with more and less drastic reform episodes. Those that avoided drastic reform episodes increased their democracy scores considerably more than those that imposed them: 7.1 points compared to 4.4 points on the Polity IV scores, and 2.1 points compared to 0.7 points on the Freedom House score. These differences demonstrate that aggressive reform tactics tend to incur significant costs in the quality of democracy. This result is consistent, of course, with the prescription for radical neoliberal reformers to keep technocrats politically insulated and impose technically (presumably) correct solutions without distraction by political opposition.

So, what is the bottom line on the performance of more versus less liberalized economies and radical versus cautious reformers? In the Latin American context of the last two decades of the twentieth century, more liberalized economies performed better in economic growth and in improvements in the quality of democracy than less liberalized economies. However, they suffered higher volatility, saw greater increases in inequality, and experienced higher levels of poverty. The higher levels of volatility clearly raise the question of whether the growth performance can be maintained in the future. The increases in inequality and the higher levels of poverty highlight the failures in linking economic neoliberalism to the construction of strong social safety nets. So, we are clearly far from a ringing endorsement of liberalized economies, even before taking into account the Argentine crisis. Given the few countries we are dealing with, the deterioration in Argentina would clearly affect the picture in growth and poverty for the worse as far as the performance of the liberalized economies is concerned.

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The starkest lessons from our comparisons, though, are the costs of radical reform approaches, and particularly of the imposition of drastic reform episodes. Countries undertaking radical reforms and imposing drastic reform episodes performed worse on all but one of our indicators than countries pursuing a more cautious reform course and avoiding such episodes. They had lower growth rates, more volatility, greater increases in inequality, higher levels of poverty, and less improvements in the quality of democracy. These results leave no doubt that governments are well advised to resist internal and external pressures to embrace aggressive reform. There are not only political costs associated with radical reform courses, but also economic and human costs.

PROSPECTS FOR THE FUTURE

To counter our assessment of the extremely limited success of neoliberalism and the high costs of radical neoliberal reform processes, the proponents of neoliberalism might argue that these two decades are just too short a time span to assess the effects of the reforms, particularly, since in some countries far-reaching reforms were only implemented in the 1990s. To respond to this argument we need to ask whether the neoliberal reforms that have been implemented have put into place policies that will have beneficial effects in the long run on growth, stability, poverty, inequality, and quality of democracy. In this context we need to look beyond economic liberalization to accompanying reforms of tax systems and of social policies. Here, the picture appears equally unfavorable.

We have shown that higher levels of economic liberalization are associated with higher volatility, and we have commented on the periodic financial crises. These crises disrupt stability and are bad for growth in the long run, because they reduce predictability and thus investment. Arguably, these financial crises are a result of the excessive deregulation of financial markets in combination with trade liberalization. Speculative inflows of foreign capital are followed by the overvaluation of the exchange rate and increases in imports and the current account deficit, which, in turn, encourage foreign borrowing. A high foreign-debt burden makes countries vulnerable to rapid outflows of capital. Once such a rapid outflow occurs, countries find themselves in balance of payments crises and are required to impose tough austerity and stabilization programs. These programs depress growth in the short run via compression of demand and in the long run via reduced investments.

Poverty has increased in many cases over the past two decades and inequality has increased in almost every Latin American and Caribbean country. One sure way to counteract both would be through tax reforms to raise revenue to pay for increased spending on basic social safety nets

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and human capital formation, i.e., food and shelter, health care, education, and job training. The dominant pattern of tax reforms, though, has reduced marginal tax rates and not increased income tax collection. It has shifted more weight to value-added taxes, which tax lower-income earners also. In general, Latin American populations remain undertaxed, with an average tax burden of 14 percent of GDP in the first half of the 1990s, compared to 17 percent of GDP in a group of East and Southeast Asian countries (IDB 1996, 128). Direct taxes amount to about 25 percent of tax revenue only, and of this amount 60 to 80 percent come from corporate tax payments, and only 10 to 15 percent come from private individuals (ECLAC 1998, 72). Interestingly, the situation in the English-speaking Caribbean is very different, with an average tax burden in the first half of the 1990s of 27–28 percent of GDP, essentially double the rate of Latin America, and direct taxation accounting for 40 percent of tax revenue (ECLAC 1998, 66–72). This contrast suggests that the fundamental reasons for the poor tax collection performance in Latin America are poor policy choices, rather than low levels of economic development and technological capacity.

Neoliberal reforms of social policy have done little to rectify the lack of a safety net for the working-age population and less to stem the decline of the value of the safety net for the elderly. Altogether, nine Latin American countries have implemented and a tenth has legislated full or partial privatization of their pension system. In five cases, privatization was total and the public system was closed down; in the other five cases it was partial and the private system remained a supplementary or a parallel option (Müller 2003). Now, it is well known that several Latin American countries had or still have excessively generous pension systems for privileged categories of workers, which clearly have to be changed. However, privatization of the public system as a whole is not the answer. Even in the best-functioning privatized systems, such as Chile's, there are very serious problems with coverage, contributions, regressive structures of fees, high administrative costs, and cohort and individual risk of investments. Maintenance of a basic public pension is crucial, and given that about half of the workforce is in the informal sector, it should be a citizenship-based pension, not one based on employment.[2]

Reforms in health care have been more heterogeneous, though in general, the private sector has expanded its role, sometimes by design as part of a neoliberal reform project and sometimes by default as a result of serious underfunding of the public system. Certainly, the increase of the role of the private sector in health care is most likely to increase the

2. For an elaboration of these issues, see Huber and Stephens (2000).

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price of health care and inequality of access in the long run. We know from the Organisation for Economic Co-operation and Development (OECD) that the countries with the greatest reliance on private insurance and private providers have the most expensive and inegalitarian health care systems.

In the 1990s most countries raised their social expenditures, so that they increased from 10.4 percent of GDP to 13.1 percent (ECLAC 2002), slightly above the level of 1980. Growth in the various categories of social expenditure, that is, education, health care and nutrition, social security, and housing and sanitation was roughly similar, with social security continuing to absorb the bulk of social expenditure, at 4.8 percent of GDP between 1998 and 1999, followed by education with 3.9 percent and health care and nutrition with 2.9 percent (ECLAC 2002, 26). Clearly, these levels of expenditure remain far below what would be needed for a concerted and successful attack on poverty and improvement of the human capital base. Also, the distribution is not as progressive as it could be. In a study of eight countries, ECLAC (United Nations Economic Commission for Latin America and the Caribbean) found that on average the lower-income strata receive transfers and free or subsidized services, including social security, equivalent to 43 percent of total household income, compared to 13 percent and 7 percent for the fourth and fifth income quintiles. Nevertheless, in some of these countries the actual amount of the transfers to the richest stratum was twice as much as that going to the poorest stratum (ECLAC 2002, 28).

One of the main arguments of neoliberal reformers, of course, has been that social expenditures should be targeted toward the poor and poorest. In principle, this is reasonable, but it raises at least two fundamental problems: (1) how large a group is to be targeted and how? and (2) what will this do to the political support for these programs? We know from the experience of advanced industrial countries that programs targeted toward small groups are politically most vulnerable, whereas programs that benefit most of the population are very popular. Given that over 40 percent of the population is poor in Latin America, it would not be difficult to construct a needy target population that is a clear majority of the population. A coalition of the poor and the working class, or the informal and the manual formal proletariat, accounts for 60–70 percent of the population in Latin American countries (Portes and Hoffman 2003, 52). Basic health care, nutrition, education, and a minimum income in case of illness or old age, targeted toward this population, with entitlement based on citizenship and financed out of general tax revenue, would be an effective and politically sustainable approach. These are fundamental principles of social-democratic welfare-state policies adapted for countries at low to medium levels of development. These principles contain a heavy emphasis on the development of the

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human capital base, which, in turn, is crucial for sustainable economic growth in a globalizing economy.

Improvement of the human capital base requires not only higher investment in primary health care and education, but also a broader attack on poverty and inequality. We now have compelling evidence from a study by the OECD and Statistics Canada that investment in education alone is an ineffective tool to improve the quality of human capital at the bottom. Representative samples of the population in OECD countries were given literacy tests designed to assess to what extent people could understand documents and directions (OECD/ Statistics Canada 2000). There is no correlation between the achievements of the bottom quartile of the populations with overall expenditure on education, public and private, but there are strong negative correlations with the levels of poverty and inequality in the respective societies (Huber and Stephens 2002).

In sum, on average, in the Latin American countries neoliberal reforms of trade and financial systems, tax systems, pensions, transfers to working-age families, health care systems, and education, have failed to put into place policies that firmly advance growth, stability, the reduction of poverty and inequality, and improvements of the human capital base. Walton correctly argues that "it is of fundamental importance to link market and government policies to the institutional context in which it occurs, in both its political and socio-cultural dimensions" (end of second paragraph, 165–166). Indeed, the rich literature on the political economy of advanced industrial societies has firmly established that the institutional context in the wider sense, including political parties, constitutional structure, and labor and employer organizations, is the crucial determinant of economic performance, the welfare state, and poverty and inequality (e.g., Kitschelt et al. 1999; Scharpf and Schmidt 2000; Hall and Soskice 2001; Huber and Stephens 2001). These institutions, however, are generally very weak in Latin America, though there are differences between countries. What we are arguing against is precisely the pressure to implement a standard set of neoliberal reforms, regardless of context. In particular, the imposition of drastic reform episodes can be outright counterproductive because, as we have shown, these episodes tend to have a negative effect on democratic institutions. Instead, slow and cautious economic reforms accompanied by the social policy efforts outlined above and deliberate institution-building strategies are a more promising alternative.

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